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RUEHBU/AMEMBASSY BUENOS AIRES 1134
RUEHLP/AMEMBASSY LA PAZ 1886
RUEHPE/AMEMBASSY LIMA 0092
RUEHSP/AMEMBASSY PORT OF SPAIN 3143
RUEHQT/AMEMBASSY QUITO 1961
RUEHSG/AMEMBASSY SANTIAGO 3431
RUEHDG/AMEMBASSY SANTO DOMINGO 0115
RHEHAAA/WHITEHOUSE WASHDC
RHEBAAA/DEPT OF ENERGY
RUCNDT/USMISSION USUN NEW YORK 0099
RUCPDO/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY
RHEHNSC/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 000960

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ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD

E.O. 12958: DECL: 11/25/2015

TAGS: [EPET](#) [ENRG](#) [EINV](#) [VE](#)

SUBJECT: OSA CONVERSION: DUST STILL SETTling

REF: A. CARACAS 910

[1](#)B. CARACAS 394

[1](#)C. CARACAS 784

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

[1](#)1. (C) SUMMARY: Companies are still negotiating significant provisions of their joint venture contracts. It is not clear if additional companies will drop out of the process. Negotiations on the signing of the conversion MOUs were down to the last minute. Vice Minister Mommer has stated his goal is to have the joint venture contracts implemented in eight weeks--a hopelessly optimistic goal. Companies may have more wiggle room to book reserves than originally thought. Employees who participated in the PDVSA strike will be let go but it is not clear if employees who signed the recall referendum will lose their jobs. END SUMMARY

KEY ISSUES STILL REMAIN TO BE NEGOTIATED

[1](#)2. (C) Although representatives of sixteen companies signed memorandums of understanding to convert their operating service agreements to joint ventures on March 31, a myriad of issues still remain to be settled before the companies sign the actual joint venture contracts (Reftels A and B). The terms of the MOUs appear to have differed slightly from company to company. All of the MOUs appear to have stated the OSAs ceased to exist and outlined the ownership of the new joint venture and a definition of its property. The MOUs also contain language that states that they are subject to approval by both parties controlling entities. In the case of a publicly traded company that would be the board of directors and shareholders.

[1](#)3. (C) It also appears that the MOUs state or imply the valuation of each property. Mauricio Di Girolamo (strictly protect), Vice President and General Manager of Harvest Vinccler, told Petroleum Attache (Petatt) on April 6 that his company has refused to accept vouchers for the equivalent of the difference between the value of Harvest's investment in

its field and the value of its share in the new joint venture. The vouchers can only be used for future investment (Reftel C). Harvest has proposed a number of alternative payment methods, including publicly traded Venezuelan bonds. Di Girolamo believes a number of companies will still drop out of the conversion process when they fail to reach agreement on key issues.

14. (C) If the MOU negotiations are any indicator, the joint venture contract negotiations will go down to the wire. Di Girolamo stated Harvest executives met with Vice Minister Bernard Mommer at 9 AM on the morning of March 31 and left the meeting convinced that they would not sign the MOU that evening. When the Harvest executives left the meeting, they passed Total executives who were waiting to meet with Mommer. The Harvest executives were called into Mommer's office late in the afternoon of the 31st and a compromise was reached that allowed them to sign the MOU. They then left Mommer's office and went directly to the signing ceremony.

15. (C) Both Di Girolamo and Guillermo Quintero (strictly protect), President of BP Venezuela, confirmed in separate meetings with Petatt on April 6 that Total made a last minute counterproposal at the signing ceremony (Reftel A). According to Di Girolamo, Total backed out of an agreement at the last minute. Quintero stated he spoke with Energy Minister Rafael Ramirez after the signing ceremony and Ramirez was quite upset over Total's actions. Total's refusal to sign has placed BP in an awkward position as it had a 45 percent stake in the Jusepin field. PDVSA took over the operations when Total, which had a 55% stake in the field, refused to sign the MOU (Reftel A). Quintero stated BP still does not know how it will be compensated for its

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interest in Jusepin. Di Girolamo speculated that Total has hardened its attitude toward the BRV because it has come to believe that it will not receive permission to expand its Sincor strategic association operations.

16. (C) The BRV and PDVSA have not set a deadline for the companies to sign the joint venture contracts. However, Mommer told Di Girolamo that he would like to see the whole process wrapped up in eight weeks. Di Girolamo stated Mommer knows that this goal is completely unrealistic. According to Di Girolamo, it would take Harvest six weeks just to get shareholder approval for the joint venture contract. Obviously, Harvest's management can not present the contract to its shareholders until all of its terms had been clearly set out.

BOOKING RESERVES

17. (C) As reported in Reftel A, Ramirez has stated repeatedly that the companies can not book the joint venture's reserves. However, Quintero told Petatt during their April 6 meeting that there is nothing in the MOU that states the companies can't book the reserves. (Note: Booking reserves refers to a company placing quantities of oil and gas on its books. Companies book reserves when they believe there is a reasonable chance of recovery based on existing economic and operating conditions. End Note) Di Girolamo stated the MOUs did not specifically forbid the booking of reserves by the oil companies but did contain language stating the reserves were property of the Venezuelan state. He said the companies may have some "wiggle room" but admitted that the issue posed a problem. Publicly traded companies will have an asset, the right to extract hydrocarbons, that will have to be publicly acknowledged in their financial statements. However, it is not quite clear how they will be able to do this in such a way as to satisfy the SEC without offending BRV hyper-sensitivities regarding the ownership of Venezuela's petroleum reserves.

HOW MANY PEOPLE ARE GOING TO LOSE THEIR JOBS?

18. (C) Rumors have been flying as to how many oil company employees will lose their jobs once they are transferred to the joint venture companies. Di Girolamo stated 22 Harvest employees, who participated in the PDVSA strike, will lose their jobs. Of that group, Harvest hopes to find positions in its Caracas office for three to six employees. In addition, it is hoping to employ its highly regarded geologists in Houston where they would work on other projects. Harvest will offer the rest of the employees a generous severance package that includes outplacement services. Quintero also said BP would be offering its affected employees a severance package along the same lines. He candidly stated that BP would be transferring some of its "best and brightest" staff out of Venezuela and would second a number of employees to the joint venture rather than transfer them to the joint venture.

19. (C) Di Girolamo stated he asked BRV officials which employees would definitely be let go as a result of the conversion. He stated they assured him that only employees who participated in the PDVSA strike would be fired. Employees who merely signed the recall referendum would not be let go. (COMMENT: Although that may be the case for now, it remains to be seen if the category of "untouchables" is eventually expanded to include employees who signed the recall referendum. The BRV and PDVSA know which employees signed the referendum. END COMMENT)

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